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August 11, 1976

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Data for July indicate a continuation of the slower growth that developed during the second quarter. Retail sales edged off last month following the June rebound, and manufacturing employment and industrial production showed no growth. The unemployment rate rose for the second month in a row. Nevertheless, there is reason to believe the recent lull in activity will be temporary. Employment gains were strong in July outside of manufacturing--supporting growth of income. Moreover, prospects for business capital investment appear to have improved, and the price situation continues to look relatively favorable.

Based on very tentative estimates, industrial production appears to have edged up slightly in July, following the small rise in June. Output of nondurable goods was about unchanged again in July, and gains in production of consumer durables weakened as auto assemblies declined, and there was less strength evident in other sectors. Production of durable materials and business equipment continued to rise, although apparently at more moderate rates.

Employment gains resumed in July after two months of little or no increase. Nonfarm payroll employment rose by an impressive 280,000 (adjusted for strike activity). Virtually all of the increase was in State and local government and in the service industries. Total household employment also increased strongly--by over 400,000, but there was a surge in labor force growth, and the unemployment rate rose 0.3 percentage point, to 7.8 per cent.

Retail sales, following the June rebound, fell more than one per cent in July, and were back to about the March level. Sales at auto outlets dropped sharply, and furniture and appliance sales were unchanged. Among nondurables, food and general merchandise sales were particularly weak. Unit sales of domestic autos were at an 8.7 million annual rate, down from 9.1 million in June, but about in line with the average sales rate over the past half year. Shortages of some popular intermediate and large model cars may have limited the sales total. Sales of American subcompacts and foreign models remained relatively weak, with stocks quite high.

The recent curtailed growth of production reflected adjustments by businesses to the easing of consumer demands and a backing-up of stocks. Inventory growth in manufacturing was moderate in May, but in June book value of factory stocks rose substantially--by \$20.9 billion, annual rate, with large increases in finished goods and work-in-process. In durables, the rise was about in line with shipments and the inventory-shipments ratio held steady, but the ratio rose for producers of nondurables. Wholesale trade inventories rose appreciably further in June, but less than in May.

In contrast to consumer markets, demands by business for capital goods now seem to be gathering momentum. New orders for non-defense capital goods rose 1.5 per cent in June, the sixth straight month of increase. Since December, these orders have risen by 16-1/2 per cent in current dollars, and by 13-1/2 per cent in real terms. Contracts for commercial and industrial buildings rose 5.6 per cent in June,

and in the second quarter, these floor space contracts were about one-fourth above the depressed first-quarter level.

Residential construction activity continues to show small gains. Private housing starts rose 4 per cent further in June. For the second quarter as a whole, all of the increase was in the depressed multi-family sector--single-family starts declined slightly. Total permits edged down in June, and for the second quarter as a whole. Nevertheless, further moderate near-term growth in housing starts appears likely, particularly in single-family units. Sales of both new and existing homes rose in June, and in July deposit growth at nonbank thrift institutions picked up again.

Costs and prices continued to rise at a more moderate pace than last year. The private nonfarm hourly earnings index increased at a 7.3 per cent annual rate in July, up from 5 per cent in June. So far this year, the index has risen at around a 7 per cent annual rate, compared to 8 per cent during all of 1975. Productivity continued to move up at a good pace in the second quarter--3.6 per cent, annual rate--and unit labor costs rose at a 3-1/2 per cent annual rate, about equal to the increase over the past year.

Consumer prices rose by 0.5 per cent in June, seasonally adjusted, about equal to the increase in the previous two months. Excluding food and energy items, which have turned up recently after earlier declines, the annual rate of rise in the second quarter was 5-1/2 per cent, which is below the average rise in the previous two quarters.

Outlook. The monetary assumption underlying the current projection is unchanged from July--an annual rate of growth of 5-3/4 per cent for M_1 . The pattern of interest rate movements projected is also little changed from the July projection. Short-term rates are projected to rise until the spring of next year and then level off; long-term rates are projected to hold steady at about their present levels.

Our fiscal policy assumptions have been modified to incorporate the Public Works Employment Act enacted by Congress over the President's veto. This is expected to add approximately \$2 billion to FY 1977 spending and to be reflected by the end of this calendar year in higher State and local purchases of goods and services. However, Federal government transfer payments have been revised down somewhat. These revisions are about offsetting and we continue to project unified budget outlays of \$410 billion in FY 1977.

Although the rubber strike has continued and appears to be no closer to settlement than a month ago, there is little evidence that production of autos and trucks, and other products using rubber, has been significantly affected by shortages. Reportedly, auto producers are using more imported tires, including some from Canada, and tires from the replacement market. We continue to expect settlement of this strike before auto and truck production is significantly affected. We are also anticipating settlement of the coal strike before the effect is felt widely.

The staff expects the recent lull in economic expansion to end soon. Consumption demands are expected to pick up over the next few months, and inventory investment seems likely to move forward at a moderate pace as final sales rise. Moreover, recent indicators of business capital spending confirm a growing strength in this sector. As a result, we continue to project a fairly steady pace of real GNP growth of slightly over 5 per cent, annual rate, over the next year and a half.

This projected rate of real GNP growth would reduce the rate of unemployment slowly, but steadily, to about a 7-1/4 per cent rate by the end of this year and to about a 6-1/2 per cent rate by the fourth quarter of 1977.

We anticipate little further improvement in the wage-price area over the next year or so. The rise in compensation per manhour is projected to average slightly over 8 per cent, annual rate, in the next half year and to edge off to about a 7-1/2 per cent rate by the end of 1977. With productivity projected to increase by close to 3 per cent, annual rate slightly more than the trend rate of growth, unit labor costs should rise at around a 5 per cent rate next year. The fixed-weighted price index for gross business product is projected to decline from a 5-1/2 per cent annual rate in the current quarter to 5 per cent in the last half of next year.

The increases projected for real activity, costs and prices are consistent with a substantial rise in corporate profits (and

internal fund flows) and should provide significant support for the strong gain projected for business fixed capital.

Details on the staff projection are shown in the tables that follow.

STAFF GNP PROJECTIONS

	Per cent change, annual rate								
	Changes in nominal GNP (\$ billions)		Gross business product fixed-weighted price index				Unemployment rate (per cent)		
	7/14/76	8/11/76	Real GNP				7/14/76	8/11/87	
		7/14/76	8/11/76	7/14/76	8/11/76	7/14/76	8/11/76	7/14/76	8/11/87
1973 ^{1/}	135.2	135.5	5.3	5.5	5.7	5.7	4.9	4.9	
1974 ^{1/}	100.6	106.6	-1.8	-1.7	9.8	10.2	5.6	5.6	
1975 ^{1/}	92.0	103.1	-2.0	-1.8	9.1	9.3	8.5	8.5	
1976	185.3	181.9	6.7	6.5	5.4	5.3	7.4	7.5	
1977	182.8	184.9	5.1	5.1	5.2	5.2	6.7	6.7	
1976-I	47.5	48.0	8.7	9.2	3.6	3.7	7.6	7.6	
II	40.0	36.8	5.0	4.4	5.0	4.6	7.4	7.4	
III	44.0	44.7	5.4	5.3	5.3	5.5	7.3	7.6	
IV	47.0	48.2	5.2	5.4	5.3	5.3	7.1	7.3	
1977-I	45.5	46.2	5.1	5.0	5.3	5.3	6.9	7.0	
II	43.8	44.7	5.0	5.0	5.1	5.1	6.8	6.8	
III	49.1	49.5	5.2	5.2	5.0	5.0	6.6	6.6	
IV	50.6	51.3	5.0	5.0	5.0	5.0	6.5	6.5	
Change:									
1975-II ^{1/} to 1976-II	199.8	190.7	7.6	7.0	5.8	5.5	-1.3	-1.3	
1975-IV ^{1/} to 1976-IV	178.5	177.7	6.1	6.0	5.0	4.8	-1.4	-1.2	
1976-II to 1977-II	180.3	183.8	5.2	5.2	5.3	5.3	-.6	-.6	
1976-IV to 1977-IV	189.0	191.7	5.1	5.1	5.1	5.1	-.6	-.8	

^{1/} Actual.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of dollars, with quarter figures at annual rates.)

	1976				1977			
	I	II	III	IV	I	II	III	IV
Gross National Product	1636.2	1673.0	1717.7	1765.9	1812.1	1856.8	1906.3	1957.6
Final purchases	1621.4	1659.7	1702.0	1748.2	1792.6	1836.3	1885.3	1935.6
Private	1266.7	1296.6	1330.6	1366.1	1402.9	1438.6	1479.6	1519.1
Excluding net exports	1258.3	1287.5	1321.3	1356.8	1393.7	1430.2	1467.6	1505.2
Personal consumption expenditures	1043.6	1064.6	1089.0	1115.0	1142.5	1170.7	1199.7	1228.7
Durable goods	151.4	154.1	157.6	162.1	166.6	171.8	177.3	182.8
Nondurable goods	429.1	434.8	443.3	452.3	462.3	472.3	482.3	492.3
Services	463.2	475.6	488.1	500.6	513.6	526.6	540.1	553.6
Gross private domestic investment	229.6	236.3	248.0	259.5	270.7	280.0	288.9	298.5
Residential construction	61.3	64.5	68.5	72.0	74.4	75.2	75.7	75.7
Business fixed investment	153.4	158.5	163.8	169.8	176.8	184.3	192.2	200.8
Change in business inventories	14.8	13.3	15.7	17.7	19.5	20.5	21.0	22.0
Nonfarm	12.7	14.7	16.5	18.0	19.5	20.5	21.0	22.0
Net exports of goods and services ^{1/}	8.4	9.1	9.3	9.3	9.2	8.4	12.0	13.9
Exports	154.1	156.8	162.7	169.2	175.9	182.2	187.3	192.7
Imports	145.7	147.7	153.4	159.9	166.7	173.8	175.3	178.8
Gov't. purchases of goods and services	354.7	363.1	371.4	382.1	389.7	397.7	405.7	416.5
Federal	129.2	132.3	135.1	138.6	140.4	142.4	144.4	149.1
Defense	86.2	88.4	89.4	91.4	92.6	93.8	95.2	98.2
Other	42.9	43.9	45.7	47.2	47.8	48.6	49.2	50.9
State and local	225.5	230.8	236.3	243.5	249.3	255.3	261.3	267.4
Gross national product in constant (1972) dollars	1246.3	1259.7	1276.1	1292.9	1308.8	1324.9	1341.9	1358.5
GNP implicit deflator (1972=100)	131.3	132.8	134.6	136.6	138.5	140.1	142.1	144.1
Personal income	1331.3	1361.4	1397.6	1429.7	1462.4	1493.3	1529.0	1564.9
Wage and salary disbursements	861.5	880.7	900.9	925.1	948.2	969.8	992.9	1020.0
Disposable income	1147.6	1171.8	1202.2	1229.6	1258.7	1285.1	1315.8	1346.0
Personal saving	79.5	82.5	88.2	89.3	90.6	88.5	89.9	90.8
Saving rate (per cent)	6.9	7.0	7.3	7.3	7.2	6.9	6.8	6.7
Corporate profits with I.T.A. and C.C. Adj.	115.1	114.0	119.2	128.0	134.3	141.9	150.9	158.4
Corporate profits with I.T.A., without C.C. Adj.	129.6	129.4	134.2	142.6	148.9	156.1	165.1	172.6
Corporate profits before taxes	141.1	143.6	146.7	154.2	160.5	167.7	176.5	184.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	316.5	323.9	332.6	342.2	353.0	362.0	372.6	383.4
Expenditures	380.3	383.1	393.6	404.7	413.1	420.7	432.0	441.0
Surplus or deficit (-) ^{2/}	-63.8	-59.2	-61.0	-62.5	-60.1	-58.7	-59.4	-57.6
High employment surplus or deficit (-)	-9.9	-2.7	-4.3	-6.4	-5.4	-1.0	-2.6	-6
State and local government surplus or deficit (-) (N.I.A. basis)	12.2	11.7	12.5	13.5	12.5	12.1	12.3	11.9
Excluding social insurance funds	-6	-1.2	-7	0	-1.3	-2.0	-2.1	-2.8
Civilian labor force (millions)	93.6	94.5	95.2	95.4	95.7	96.2	96.6	97.2
Unemployment rate (per cent)	7.6	7.4	7.6	7.3	7.0	6.8	6.6	6.5
Nonfarm payroll employment (millions)	78.4	79.0	79.3	79.8	80.4	81.1	81.7	82.3
Manufacturing	18.8	19.0	19.1	19.3	19.4	19.6	19.7	19.9
Industrial production (1967 = 100)	127.0	129.3	130.8	132.8	134.7	136.8	138.9	141.0
Capacity utilization mg. (per cent)	72.1	73.0	73.3	73.8	74.4	75.0	75.6	76.1
Materials (per cent)	78.9	80.5	80.8	81.4	82.0	82.7	83.3	84.0
Housing starts, private (millions, A.R.)	1.40	1.43	1.53	1.55	1.60	1.55	1.50	1.50
Sales new autos, (millions, A.R.)	9.99	10.34	10.40	10.60	10.85	11.00	11.05	11.15
Domestic models	8.68	8.90	8.90	9.10	9.30	9.40	9.45	9.50
Foreign models	1.31	1.45	1.50	1.50	1.55	1.60	1.60	1.65
^{1/} Net exports of g. & s. (Bal. of paymts) ^{3/}	3.9	5.5	5.1	4.1	3.4	2.4	6.0	7.9
Exports	154.1	161.5	167.4	173.9	180.6	186.9	192.0	197.4
Imports	150.2	156.0	162.3	169.8	177.2	184.5	186.0	189.5

^{2/} The Federal government receipts estimate continues to assume passage of legislation which extends, through 1977, the tax cuts embodied in the Tax Reduction Act of 1975.

^{3/} Includes U.S. government interest payments to foreigners and shipments of military equipment and supplies to Israel under cash grant programs; the former is not included in imports and the latter is not included in exports in the GNP accounts.

	1976				1977			
	I	II	III	IV	Projected			
	I	II	III	IV	I	II	III	IV
	-----Billions of Dollars-----							
Gross National Product	48.0	36.8	44.7	48.2	46.2	44.7	49.5	51.3
Inventory change	19.1	-1.5	2.4	2.0	1.8	1.0	.5	1.0
Final purchases	28.9	38.3	42.3	46.2	44.4	43.7	49.0	50.3
Private	28.0	29.9	34.0	35.5	36.8	35.7	41.0	39.5
Net exports	-12.6	.7	.2	.0	-.1	-.8	3.6	1.9
Excluding net exports	40.6	29.2	33.8	35.5	36.9	36.5	37.4	37.6
Personal consumption expenditures	31.6	21.0	24.4	26.0	27.5	28.2	29.0	29.0
Durable goods	9.6	2.7	3.5	4.5	4.5	5.2	5.5	5.5
Nondurable goods	7.5	5.7	8.5	9.0	10.0	10.0	10.0	10.0
Services	14.6	12.4	12.5	12.5	13.0	13.0	13.5	13.5
Residential fixed investment	4.3	3.2	4.0	3.5	2.4	.8	.5	.0
Business fixed investment	4.7	5.1	5.3	6.0	7.0	7.5	7.9	8.6
Government	.9	8.4	8.3	10.7	7.6	8.0	8.0	10.8
Federal	-1.2	3.1	2.8	3.5	1.8	2.0	2.0	4.7
State and local	2.1	5.3	5.5	7.2	5.8	6.0	6.0	6.1
GNP in constant (1972) dollars	27.1	13.4	16.4	16.9	15.9	16.1	17.0	16.6
Final purchases	11.2	14.3	14.8	15.3	14.9	15.0	17.1	15.9
Private	14.5	11.6	12.0	13.0	13.6	13.0	15.6	14.5
	-----In Per Cent Per Year ^{1/} -----							
Gross National Product	12.6	9.3	11.1	11.7	10.9	10.2	11.1	11.2
Final purchases	7.5	9.8	10.6	11.3	10.6	10.1	11.1	11.1
Private	9.4	9.8	10.9	11.1	11.2	10.6	11.9	11.1
Personal consumption expenditures	13.1	8.3	9.5	9.9	10.2	10.2	10.3	10.0
Durable goods	29.8	7.6	9.4	11.9	11.6	13.1	13.4	13.0
Nondurable goods	7.3	5.5	8.1	8.4	9.1	8.9	8.7	8.6
Services	13.7	11.2	10.9	10.6	10.8	10.5	10.7	10.4
Gross private domestic investment	68.9	12.2	21.3	19.9	18.4	14.5	13.3	14.0
Residential structures	34.0	22.6	27.2	22.1	14.0	4.4	2.7	.0
Business fixed investment	13.3	13.8	14.1	15.5	17.5	18.1	18.3	19.1
Gov't. purchases of goods & services	1.0	9.8	9.5	12.0	8.2	8.5	8.3	11.1
Federal	-3.7	10.0	8.7	10.8	5.3	5.8	5.7	13.7
Defense	-4.1	10.6	4.6	9.3	5.4	5.3	6.1	13.2
Other	-2.7	9.7	17.4	13.8	5.2	6.9	5.0	14.6
State and local	3.8	9.7	9.9	12.8	9.9	10.0	9.7	9.7
GNP in constant (1972) dollars	9.2	4.4	5.3	5.4	5.0	5.0	5.2	5.0
Final purchases	3.7	4.7	4.8	4.9	4.7	4.7	5.3	4.9
Private	6.2	4.8	5.0	5.3	5.5	5.2	6.2	5.5
GNP implicit deflator ^{2/}	3.2	4.7	5.5	5.0	5.6	5.0	5.6	5.9
Gross business product fixed weighted price index ^{3/}	3.7	4.6	5.5	5.3	5.3	5.1	5.0	5.0
Personal income	10.1	9.4	11.1	9.5	9.5	8.7	9.9	9.7
Wage and salary disbursements	12.6	9.2	9.5	11.2	10.4	9.4	9.9	11.4
Disposable income	10.3	8.7	10.8	9.4	9.8	8.7	9.9	9.7
Corporate profits before tax	33.4	7.3	8.9	22.1	17.4	19.2	22.7	18.1
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	13.4	9.7	11.2	12.1	13.2	10.6	12.2	12.1
Expenditures	4.7	3.0	11.4	11.8	8.6	7.6	11.2	8.6
Nonfarm payroll employment	4.2	3.1	1.5	2.5	3.0	3.5	3.0	3.0
Manufacturing	6.6	2.1	2.1	4.3	2.1	4.2	2.1	4.1
Industrial production	12.6	7.4	4.7	6.3	5.8	6.4	6.3	6.2
Housing starts, private	9.1	8.9	31.0	5.3	13.5	-11.9	-12.3	.0
Sales new autos	38.4	14.8	2.3	7.9	9.8	5.6	1.8	3.7
Domestic models	48.0	10.5	.0	9.3	9.1	4.4	2.1	2.1
Foreign models	-8.7	50.1	14.5	.0	14.0	13.5	.0	13.1

^{1/} Percentage rates are annual rates compounded quarterly.

^{2/} Excluding Federal pay increases rates of change are: 1976-I, 3.0 per cent; 1976-IV, 5.5 per cent; 1977-I, 5.5 per cent; 1977-IV, 5.3 per cent.

^{3/} Using expenditures in 1972 as weights.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of dollars)

	1970	1971	1972	1973	1974	1975	Projected 1976	Projected 1977
Gross National Product	982.4	1063.4	1171.1	1306.6	1413.2	1516.3	1698.2	1883.2
Final purchases	978.6	1057.1	1161.7	1288.6	1402.5	1531.0	1682.8	1862.5
Private	759.7	823.4	908.6	1019.1	1099.2	1192.0	1315.0	1460.1
Excluding net exports	755.8	821.8	911.9	1012.0	1091.7	1171.5	1306.0	1449.2
Personal consumption expenditures	618.8	668.2	733.0	809.9	887.5	973.2	1078.1	1185.4
Durable goods	84.9	97.1	111.2	123.7	121.6	131.7	156.3	174.6
Nondurable goods	264.7	277.7	299.3	333.8	376.2	409.1	439.9	477.3
Services	269.1	293.4	322.4	352.3	389.6	432.4	481.9	533.5
Gross private domestic investment	140.8	160.0	188.3	220.0	215.0	183.7	243.4	284.5
Residential construction	36.6	49.6	62.0	66.1	33.1	51.2	66.6	75.3
Business fixed investment	100.5	104.1	116.8	136.0	149.2	147.1	161.4	188.5
Change in business inventories	3.8	6.4	9.4	17.9	10.7	-14.6	15.4	20.8
Nonfarm	3.7	5.1	8.8	14.7	12.2	-17.6	15.5	20.8
Net exports of goods and services	3.9	1.6	-3.3	7.1	7.5	20.5	9.0	10.9
Exports	62.5	65.6	72.7	101.6	144.4	148.1	160.7	184.5
Imports	58.5	64.0	75.9	94.4	136.9	127.6	151.7	173.7
Gov't. purchases of goods and services	218.9	223.7	253.1	289.5	303.3	339.0	367.8	402.4
Federal	95.6	96.2	102.1	102.2	111.6	124.4	133.8	144.1
Defense	73.5	70.2	73.5	73.5	77.3	84.3	88.9	95.0
Other	22.1	26.0	28.6	28.7	34.3	40.1	44.9	49.1
State and local	123.2	137.5	151.0	167.3	191.6	214.5	234.0	258.3
Gross national product in constant (1972) dollars	1075.3	1107.5	1171.1	1235.0	1214.0	1191.7	1268.8	1333.5
GNP implicit deflator (1972=100)	91.4	96.0	100.0	105.8	116.4	127.3	133.8	141.2
Personal income	801.3	859.1	942.5	1052.4	1153.3	1249.7	1380.0	1512.4
Wage and salary disbursements	546.5	579.4	633.8	701.3	765.0	806.7	892.1	982.7
Disposable income	685.9	742.8	801.3	901.7	982.9	1080.9	1187.8	1301.4
Personal saving	50.6	57.3	49.4	70.3	72.2	84.0	84.9	90.0
Saving rate (per cent)	7.4	7.7	6.2	7.8	7.3	7.8	7.1	6.9
Corporate profits with I.W.A. and C.C. Adj.	67.9	77.2	92.1	99.1	94.8	91.6	119.1	146.4
Corporate profits with I.W.A., without C.C. Adj.	66.4	76.9	89.6	97.2	87.8	103.1	134.0	160.7
Corporate profits before tax	71.5	82.0	96.2	115.8	127.6	114.5	146.4	172.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{1/}	192.1	198.6	227.5	258.3	288.2	286.5	328.8	367.8
Expenditures	204.2	220.6	244.7	265.0	299.7	357.8	390.4	426.7
Surplus or deficit (-)	-12.1	-22.0	-17.3	-6.7	-11.5	-71.2	-61.6	-59.0
High employment surplus or deficit (-)	6.5	-1.7	-1.0	6.6	26.3	-9.8	-5.8	-2.4
State and local government surplus or deficit (-) (N.I.A. basis)	2.8	3.7	13.7	13.0	7.3	6.9	12.5	12.2
Excluding social insurance funds	-4.0	-3.8	5.6	4.1	-2.8	-3.1	-6	-2.1
Civilian labor force (millions)	82.7	84.1	86.5	88.7	91.0	92.6	94.7	96.4
Unemployment rate (per cent)	4.9	5.9	5.6	4.9	5.6	8.5	7.5	6.7
Nonfarm payroll employment (millions)	70.9	71.2	73.7	76.9	78.4	77.0	79.1	81.4
Manufacturing	19.3	18.6	19.1	20.1	20.0	18.3	19.1	19.7
Industrial production (1967=100)	107.8	109.6	119.7	129.8	129.3	117.8	130.0	137.9
Capacity utilization, mfg. (per cent)	78.3	75.0	78.6	83.0	78.9	58.7	73.1	75.3
Materials (per cent)	84.3	83.1	88.0	92.5	87.7	73.5	80.4	83.0
Housing starts, private (millions, A.R.)	1.43	2.05	2.36	2.05	1.34	1.16	1.48	1.54
Sales new autos (millions, A.R.)	8.40	10.24	10.93	11.44	8.87	8.66	10.33	11.01
Domestic models	7.12	8.68	9.32	9.67	7.45	7.08	8.90	9.41
Foreign models	1.28	1.56	1.61	1.77	1.42	1.58	1.44	1.60
^{1/} Net exports of g. & s. (Bal. of paymts) ^{3/}	3.0	-2	-6.0	3.3	3.2	15.9	4.7	4.9
Exports	62.4	65.5	72.7	101.5	144.4	148.0	164.2	189.2
Imports	59.5	65.8	78.6	98.3	141.2	132.2	159.6	184.3

^{2/} The Federal government receipts estimate continues to assume passage of legislation which extends, through 1977, the tax cuts embodied in the Tax Reduction Act of 1975.

^{3/} Includes U.S. government interest payments to foreigners and shipments of military equipment and supplies to Israel under cash grant programs; the former is not included in imports and the latter is not included in exports in the GNP accounts.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971	1972	1973	1974	1975	Projected	
							1976	1977
-----Billions of Dollars-----								
Gross National Product	46.9	31.0	107.7	135.5	106.6	103.1	181.9	185.0
Inventory change	-5.6	2.6	3.0	8.5	-7.2	-25.3	30.0	5.4
Final purchases	52.4	78.5	104.6	126.9	113.9	128.5	151.8	179.7
Private	41.4	63.7	85.2	110.5	80.1	92.8	123.0	145.1
Net exports	2.1	-2.3	-4.9	10.4	.4	13.0	-11.5	1.9
Excluding net exports	39.3	66.0	90.1	100.1	79.7	79.8	134.5	143.2
Personal consumption expenditures	39.1	49.4	64.8	76.9	77.6	85.7	104.9	107.3
Durable goods	-.6	12.2	14.1	12.5	-2.1	10.1	24.6	18.3
Nondurable goods	17.7	13.0	21.6	34.5	42.4	32.9	30.8	37.4
Services	21.9	24.3	29.0	29.9	37.3	42.8	49.5	51.6
Residential fixed investment	-1.3	13.0	12.4	4.1	-11.0	-3.9	15.4	8.7
Business fixed investment	1.6	3.6	12.7	19.2	13.2	-2.1	14.3	27.1
Government	11.0	14.8	19.4	16.4	33.8	35.7	23.8	34.6
Federal	-1.9	.6	5.9	.1	9.4	12.8	3.4	10.3
State and local	12.8	14.3	13.5	16.3	24.3	22.9	19.5	24.3
GNP in constant (1972) dollars	-3.5	32.2	53.6	63.9	-21.0	-22.3	77.1	64.7
Final purchases	2.8	29.9	60.8	56.8	-13.0	-1.8	54.2	51.2
Private	9.3	30.7	57.1	57.4	-16.9	-6.4	49.3	53.5
-----In Per Cent Per Year-----								
Gross National Product	5.0	8.2	10.1	11.6	8.2	7.3	12.0	10.9
Final purchases	5.7	8.0	9.9	10.9	8.8	9.2	9.9	10.7
Private	5.8	8.4	10.3	12.2	7.9	8.4	10.3	11.0
Personal consumption expenditures	6.7	8.0	9.7	10.5	9.6	9.7	10.8	10.0
Durable goods	-.7	14.4	14.6	11.2	-1.7	8.3	18.7	11.7
Nondurable goods	7.2	4.9	7.8	11.5	12.7	8.7	7.5	8.5
Services	8.9	9.0	9.9	9.3	10.6	11.0	11.4	10.7
Gross private domestic investment	-3.7	13.6	17.7	16.8	-2.3	-14.6	32.5	16.9
Residential structures	-3.4	35.5	25.1	6.6	-16.7	-7.1	30.1	13.1
Business fixed investment	1.6	3.6	12.3	16.4	9.7	-1.4	9.7	16.8
Gov't. purchases of goods & services	5.3	6.8	8.3	6.5	12.5	11.8	8.5	9.4
Federal	-1.9	.6	6.1	.1	9.2	11.5	7.6	7.7
Defense	-3.7	-4.5	4.7	.0	5.2	9.1	5.5	6.9
Other	4.2	17.6	10.0	.3	19.5	16.9	12.0	9.4
State and local	11.6	11.6	9.8	10.8	14.5	11.9	9.1	10.4
GNP in constant (1972) dollars	-.3	3.0	5.7	5.5	-1.7	-1.8	.3	5.1
Final purchases	.3	2.8	5.5	4.9	-1.1	-.1	.5	4.9
Private	1.1	3.7	6.7	6.3	-1.7	-.7	.2	5.4
GNP implicit deflator	5.4	5.1	4.1	5.8	10.0	9.3	11.1	5.5
Gross business product fixed weighted price index ^{1/}	4.4	4.4	3.3	5.7	10.2	9.3	5.3	5.2
Personal income	7.4	7.2	9.7	11.7	9.6	8.4	10.0	10.6
Wage and salary disbursements	6.2	6.0	9.4	10.7	9.1	5.5	10.0	10.2
Disposable income	8.8	8.3	7.9	12.5	9.0	10.0	9.9	9.6
Corporate profits before tax	-14.3	14.7	17.3	20.4	10.2	-10.3	17.9	17.6
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-2.5	3.4	14.6	13.5	11.6	-.6	14.8	11.9
Expenditures	8.4	8.0	10.9	8.3	13.1	19.4	9.1	9.3
Nonfarm payroll employment	.7	.4	3.5	4.3	2.0	-1.8	2.7	2.9
Manufacturing	-4.5	-3.6	2.7	5.2	-.5	-8.5	4.4	3.1
Industrial production	-3.0	1.7	9.2	8.4	-.4	-8.9	10.4	6.1
Housing starts, private	-2.7	43.4	15.1	-13.1	-34.6	-13.4	27.6	4.1
Sales new autos	-12.2	21.9	6.7	4.7	-22.5	-2.4	19.3	6.6
Domestic models	-15.8	21.9	7.4	3.8	-23.0	-5.0	25.7	5.7
Foreign models	15.3	21.9	3.2	9.9	-19.8	11.3	-8.9	11.1

^{1/} Using expenditures in 1972 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Bond market yields have changed little on balance since the July FOMC meeting, despite the large volume of longer-term debt sold by the Treasury in its recent financing. The Treasury announced that it would sell three new debt issues in its mid-August refunding of \$4.5 billion of maturing debt; \$2.0 billion of 3-year notes, \$1.0 billion of 25-year bonds--each to be sold in competitive auctions--and \$4.0 billion of 8 per cent 10-year notes, offered on a fixed price subscription basis. Investor interest in the latter security proved exceptionally strong, and the Treasury decided to allot \$7.5 billion of such issues to subscribers, raising the total of new debt sold in the operation to \$10.5 billion.

Long-term, as well as short-term, markets were influenced by expectations that aggregate credit demands will be on the moderate side over the near-term, and that monetary policy will not tighten appreciably. Attitudes toward monetary policy have been influenced by the continued stability of the funds rate around 5-1/4 per cent, by incoming information suggesting a pause in the pace of economic expansion, and by the announcement that no change has been made in the FOMC's long run M_1 growth range.

A moderation of demands on capital markets by corporations and State and local governments since mid-year has also worked to offset the potential interest rate effects of Treasury debt lengthening. The volume of bonds brought to market by State and local governments

in July and early August dropped seasonally, and there was a more substantial cutback in bond and equity offerings by corporations.

Aggregate inflows of funds to savings and consumer-type time deposits strengthened materially in July. At commercial banks, savings deposits, which had remained unchanged in June, rebounded to an 11-1/2 per cent annual growth rate, while consumer-type time deposits continued to expand rapidly. Flows into accounts at S&L's and MSB's also picked up sharply. The strengthening of July deposit flows may in part be attributable to investor response to the recently reduced level of short-term market interest rates (relative to deposit rates).

Given the improved flow of consumer-type deposits, commercial banks allowed a substantial runoff of large CD's in July and early August, thus reversing the June buildup that took place apparently for mid-year window dressing purposes. At the same time, with business loan demands strengthening a bit and household credit demands apparently remaining strong, banks cut back on their rate of security acquisitions in July.

Outlook. Aggregate demands for funds in financial markets may prove fairly moderate over the remainder of the summer. The Treasury has already raised the bulk of its third quarter cash needs and has only about \$2 billion left to be financed. In addition, the corporate and municipal bond calendars appear relatively modest through September.

By early fall, however, credit demands should strengthen. The Treasury will again place heavy demands on credit markets, as it begins to raise part of the \$28 billion or so of new money it will need over the fourth quarter. With the economy continuing to expand, business demands for short- and long-term funds should also pick up. Credit demands also may be bolstered by further expansion in household needs for funds to finance the purchase of houses and consumer durable goods. Against this general background, it seems unlikely that significant upward pressures on interest rates will develop until later this year.

Fund flows to savings deposits and consumer-type time deposits at banks and thrift institutions may be reduced significantly around mid-August as investors withdraw funds to pay for their awards in the Treasury's recent financing. But with market rates expected to remain around current levels in the near-term, flows should pick up thereafter and growth in such deposits is expected to remain relatively strong through the summer and early fall. With funds flowing into nonbank thrift institutions at a substantial pace, the strong mortgage credit demands expected over this period can probably be accommodated with little net change in mortgage interest rates.

INTERNATIONAL DEVELOPMENTS

Summary. Over the past four weeks the dollar declined against the mark and the yen, but advanced against the Canadian dollar and the French franc. On a weighted average basis the dollar showed little change. The lira continued in good demand

. Sterling has stabilized

. Just after the turn of the month a flurry of demand for marks resulted in EC snake margins coming under some pressure. This pressure has eased at present, following

significant increases in interest rates in Belgium and the Netherlands.

The U.S. trade balance in the second quarter registered a deficit of \$4.7 billion at an annual rate, slightly less than the first quarter deficit rate. During the quarter the volume of agricultural exports rose considerably, while other exports continued their upward trend in response to recovery in economic activity abroad. Most of the export increase went to developed countries, with sales to developing countries other than oil producers rising more slowly as many of these countries were taking measures to reduce their deficits. Exports to oil producers rose moderately in the second quarter.

Imports of fuels have jumped from an annual rate of about \$30 billion in the fourth quarter of last year to a rate of about \$36 billion in the second quarter of this year. Most of the increase

reflect rising activity in the United States, together with declining domestic production and some edging up of import prices. Imports of other commodities rose sharply in the first quarter, when inventory accumulation was rising rapidly, but have since been fairly flat with volume down a little in the second quarter and prices rising somewhat.

Bank-reported private capital flows resulted in a \$3.8 billion net outflow in June. Banks' claims on foreigners rose by about \$1 billion, close to the monthly rate for the first half and bringing the total increase for the first half to about \$8 billion. On the liabilities side, however, there was a net run-down of \$2.8 billion in June, in contrast to sizable inflows in April and May, possibly reflecting the relative easing of credit conditions in the United States as well as end of month adjustments of banks' positions.

U.S. net purchases of foreign securities eased off to \$1.4 billion in the second quarter, about half the record first-quarter rate, but new issues rose to \$1.5 billion in July alone as large IBRD and Canadian issues were placed. Foreign private purchases of U.S. corporate stocks slowed sharply in the second quarter, though purchases by OPEC countries were well maintained.

The pattern of world trade balances has been changing dramatically under the pressure of oil price changes and cyclical developments. For the seven largest industrial countries, including the United States, the balance shifted from a combined deficit of \$4 billion in 1974 to a surplus of \$26 billion in 1975, but the surplus began to diminish after

the middle of 1975 and was down to an annual rate of about \$14 billion in the second quarter of this year. However, within the aggregate the U.S. balance shifted from a substantial surplus rate in the second half of 1975 to a \$5-6 billion rate of deficit in the first half, while the six other industrial countries combined registered rising surpluses. This resulted mainly from strong trade surpluses for Germany and Japan, more than offsetting the deficits of the United Kingdom, Canada, France, and Italy. Economic recovery in Germany and Japan has been supported by their trade performance. There has been some reduction in the trade deficit of the developing countries as the counterpart of the reduced surplus of the industrial countries -- especially the United States.

Outlook. Economic prospects for other large industrial countries have not changed materially in the past month; after a surge in the first quarter, recovery is proceeding generally at a moderate rate. With little change in the basic economic picture, projections for the U.S. trade balance show marginally larger deficits -- \$6 billion this year and \$7 billion in 1977 -- mainly because of stepped up fuel imports. A surplus on the order of \$5 billion for goods and services combined (balance-of-payments basis) is projected for both years.

The large disparities in the trade balances of other industrial countries will probably be converging somewhat in the period ahead. In both Germany and Japan the cyclical recovery in demand should begin to diminish their trade surpluses, while in the other countries currency depreciations, rising demand in export markets, and measures to restrain domestic demand should begin to have their effects on the external sector.